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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PREL](#) [PTER](#) [SA](#) [LE](#)

SUBJECT: LEBANON: FINMIN AZOUR - NAVIGATING BY RADAR;
VISIBILITY NIL

Classified By: Ambassador Michele Sison for reasons 1.4 (b) and (d)

11. (C) Summary: Finance Minister Azour, in his initial meeting with the Ambassador, outlined the economic situation at the end of 2007, and the challenges facing him in 2008. Last year was better than it might have been, but now security tensions are stalling the economy. Preventing economic collapse, the lack of a functioning parliament and president, and the inability to plan long term are issues. In Azour's opinion spending on the military is too high. Azour also noted that the reform program, which has some weaknesses, could benefit from new and possibly smaller ideas. End summary.

2007 BETTER THAN IT
COULD HAVE BEEN

12. (C) In an introductory meeting with the Ambassador and Econoff on 02/13, Minister of Finance Jihad Azour outlined the economic situation facing the GOL at the end of 2007. Azour was accompanied by his team leader (and wife) Roula Rizk and his senior economic advisor Nadine Aboukhaled, who are both UNDP consultants. He characterized the situation at the end of 2007 as "better than it could have been," with two-three percent real growth, a \$2 billion surplus in the balance of payments and debt/GDP down to six percent. Saying that the reality is better than the public perception, Azour suggested that there are still achievable opportunities for improvement in the economic situation. With a weak US dollar and lower interest rates, there are increased opportunities for substitution of US goods for those currently imported from Europe. Although US imports are increasing, so far very few European imports have been dropped in favor of US products.

SPENDING ON MILITARY TOO HIGH

13. (C) Military spending also disturbs Azour, who sees the forty percent increase in spending in 2007 compared to 2005 as often misplaced. Too many soldiers are doing non-military jobs, which could be contracted out at a lower cost, since the hiring of one soldier incurs an additional sixty percent in cost of benefits. According to a Swedish NGO who tracks military statistics across countries, Lebanon has far too large an army for its size, especially given the global trend of substituting technology for personnel. Azour questions the objectives vs. needs equation in the Lebanese Armed

Forces and the Internal Security Forces.

2008 BRINGS THREE
MAJOR CHALLENGES

14. (C) Looking out at 2008, Azour sees three major challenges. Although the Lebanese economy has continued to function well in the face of political tension, the increased security tension since mid-January has stalled the economy. Referring to the lengthy time required to jump start the economy after the civil war, Azour aims to prevent economic collapse. The GOL can now do less and less in the face of a missing parliament. Finally, the GOL is operating on a day-to-day basis, because of the uncertainties. If he knew that there would be no acting parliament or president in 2008, alternative means might be found to move ahead, but at this point Azour feels that the GOL is "navigating by radar, with no visibility ahead."

DEBT FINANCING POSSIBLE,
BUT HELP IS NEEDED

15. (C) Financing needs in 2008 will be different than before, because although the amount required is less than needed in 2007, there is currently no parliament to approve new borrowing. The GOL will need to roll over previous debt, and the drop in US interest rates will help make that easier, if only because investors will not find attractive alternatives outside of Lebanon. The Minister knows how to borrow sufficient funds to "get over the peaks" but will need both market confidence and additional outside support to make it happen. The Saudi government has promised to deposit an

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additional \$1 billion in the Central Bank, plus provide \$80 million in grants for certain social programs. However, the Central Bank deposit has not yet taken place. Other oil-rich countries are in discussion with the Prime Minister. Kuwait, which, along with the Saudis, made a similar deposit of \$500 million after the 2006 war, is "more complex," although something might materialize in 2008. Azour feels that the US could assist by supporting these requests.

POOREST ARE HIT THE HARDEST
BY THE ECONOMIC PROBLEMS

16. (C) The economic down turn is seriously affecting the lower and middle classes, many of whom are not wage earners. Therefore proposed actions to increase wages, which will result in higher prices, will not benefit this group at all. Economic growth will provide the biggest impact, but adjusting subsidies will also help. Azour is working with the World Bank to find better ways to use subsidies as an effective tool. Azour sees lack of ambition as one of the weaknesses of the reform agenda; the GOL is "not doing enough." For example, spending on education has increased but enrollment in public schools is dropping, as even the lower classes choose to spend what they can ill afford on private schools. Azour sees a need for new ideas, and smaller and possibly less strategic projects.

17. (C) Azour welcomed the visit of Treasury DAS Andrew Baukol next week, and is planning a trip to Washington to meet with the International Monetary Fund prior to the spring meetings.
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